

Juridical Review of Agreements Providing Banking Loans (Credit) to Individual Customers in the Form of General Rural Credit (KUPEDES)

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Abstract

This article discusses the important role of the financial system, especially the People's Business Credit (KUPEDES) program, in supporting economic development in Indonesia, especially for Micro, Small, and Medium Enterprises (MSMEs). KUPEDES is designed to improve access to capital for rural communities that often have difficulty in meeting formal credit requirements. This program contributes to poverty alleviation and encourages local economic growth. With a clear legal framework, KUPEDES protects the rights and obligations of banks as credit providers and customers as credit recipients. The dispute resolution mechanism regulated by the OJK provides legal certainty, increasing customer confidence in applying for credit. However, challenges remain, especially in ensuring customer understanding of credit terms and risks. Therefore, it is important for financial institutions to provide adequate education on the legal dimensions of credit agreements. Implementation of training and counseling programs can help customers manage their finances wisely. Overall, KUPEDES is not only a tool to improve access to capital, but also a driver of financial inclusion that strengthens the rural economy and supports sustainable growth in Indonesia. An in-depth analysis of the legal aspects of the KUPEDES agreement is essential to ensure compliance and sustainability of rural economic development through financial inclusion.

1. INTRODUCTION

The financial system is a vital component of modern society, primarily functioning to mobilize funds from the public and distribute them as credit. These funds are then invested in the manufacturing sector or used to purchase goods and services, with the goal of promoting economic growth and improving public welfare. Banks serve as key partners in addressing daily financial needs by facilitating a range of financial transactions such as saving, investing, and processing payments or bills. Additionally, the banking system plays a critical role in determining the availability of credit to finance the production of goods and services, which is a fundamental part of economic activity. The effectiveness of this system significantly impacts the overall smooth operation of the economy.

As Indonesia's economy continues to grow rapidly, financial institutions like banks have become essential tools for fostering economic development. Banks collect funds in the form of savings and redistribute them through loans. Credit activities are central to banking operations, with the volume of loans determining the profitability of the bank. If a bank fails to disburse loans when there is a surplus of deposited funds, it risks losing substantial profit opportunities. Hence, the management of fund collection and distribution, especially through credit, is a pivotal factor in the success of banking operations, influencing both direct and indirect outcomes.

Micro, Small, and Medium Enterprises (MSMEs) form a significant part of Indonesia's economic landscape. One of their strengths is their resilience to economic downturns. Consequently, strengthening MSMEs is essential, as this sector engages many segments of the population. MSMEs play crucial roles in creating jobs, contributing to GDP growth, and providing a safety net for the economically disadvantaged, enabling them to engage in productive economic activities. Despite their importance, MSMEs often face challenges, particularly in accessing sufficient capital. The main issue for developing MSMEs is the difficulty in securing loans due to inadequate collateral. Medium-sized businesses are usually able to overcome this challenge by using assets as loan collateral, but for micro and small enterprises, limited capital is often a major barrier to expansion. Furthermore, day-to-day consumer needs, such as home repairs, education costs, and basic living expenses, pose additional hurdles for small business owners (Ministry of Cooperatives and SMEs, 2021). This analysis highlights the interdependence between the financial system and economic development, particularly in supporting MSMEs as key drivers of inclusive growth.

The banking sector plays a crucial role in driving a nation's economic growth, particularly through activities such as capital accumulation and credit distribution.

One prominent type of credit commonly utilized by rural communities is the Rural General Credit (KUPEDES) program. This credit facility is specifically designed to support the financial needs of rural populations by providing access to capital for individuals and businesses operating in rural areas (Ministry of Cooperatives and SMEs, 2021). KUPEDES, or Rural General Credit, is a financing program that draws its resources from bank funds or customer deposits. The funds provided are allocated for working capital and investment needs, targeting MSMEs, including individuals, business entities, or business groups that run productive ventures but lack additional collateral or are deemed feasible yet not fully bankable. In other words, while these businesses demonstrate strong prospects and the capacity to repay the loans, they have not yet satisfied the formal banking credit requirements.

At its inception, the KUPEDES Program was designed as part of a poverty alleviation initiative (pro-poor) aimed at broadening MSMEs' access to capital through formal financial institutions. As time progressed, the program underwent several adjustments in line with the government's evolving policies on micro and small business empowerment. These changes encompassed the credit distribution scheme, the expansion of eligible beneficiaries, and the overall increase in credit volume. Additionally, local governments were prompted to take on a more active role in facilitating and optimizing the distribution of KUPEDES through a variety of measures to enhance the effectiveness of credit allocation in their regions (Ministry of Cooperatives and SMEs, 2021). The shift in policy reflects the government's growing commitment to inclusivity, specifically in supporting MSMEs with growth potential but limited access to formal capital. It also highlights the government's strategic role in crafting policies that address not only economic growth but also poverty reduction through the empowerment of micro and small enterprises.

KUPEDES is designed to assist Micro, Small, and Medium Enterprises (MSMEs) that require working capital or investment but often fall short of the formal requirements set by banks. This credit scheme serves as a critical tool for strengthening the rural economy by extending capital access to sectors with growth potential but limited financial resources. The legal framework governing banking credit agreements, including KUPEDES, is part of civil law, where both the bank, as the credit provider, and the customer, as the recipient, have specific rights and obligations. A comprehensive review of the legal aspects, such as the legality, terms, and responsibilities of both parties, is essential to ensure the validity of the agreement. The legitimacy of this agreement is crucial to facilitate smooth credit operations and mitigate any disputes between the bank and the customer.

Additionally, the legal framework surrounding credit agreements involves protective measures for both the bank and the customer, ensuring that they can execute their respective rights and obligations effectively. Legal protection plays a significant role in preventing issues such as defaults or violations of the agreed-

upon terms. As such, a thorough legal examination of credit agreements, particularly for KUPEDDES, is necessary for both financial institutions and individual clients to fully comprehend their rights and duties within the transaction process (Ali, 2018).

KUPEDDES, as a credit initiative designed to widen financial access for rural communities, also interacts with government policies. These policies are integral to regulating credit schemes, determining eligibility criteria for beneficiaries, and overseeing the implementation of credit agreements. Consequently, analyzing the legal dimensions of KUPEDDES provides valuable insights into how well current regulations safeguard both parties and ensure equitable outcomes (Kasmir, 2019). A proper understanding of these legal aspects is not only crucial for ensuring compliance but also for fostering sustainable rural economic development through financial inclusion.

This article aims to thoroughly analyze the legal aspects surrounding the KUPEDDES credit agreement, with a focus on how existing regulations establish a clear legal framework for the execution of such agreements. By examining these legal foundations, the discussion will provide a detailed understanding of the rights and obligations inherent in credit agreements, as well as the legal safeguards in place for both banks and customers within Indonesia's banking credit system. A deeper exploration of the KUPEDDES credit agreement is essential in understanding the regulatory environment that governs these financial contracts. The legal basis for credit agreements ensures that both parties banks as creditors and customers as debtors are aware of their respective duties, liabilities, and protections under the law. In this context, Indonesian banking regulations, including the Financial Services Authority (OJK) guidelines, play a crucial role in outlining the rights of customers to access credit, while also protecting banks from default risks through legally enforceable contracts.

Additionally, the legal framework covers key aspects such as the terms of credit disbursement, the use of collateral (or lack thereof in cases of non-bankable customers), and dispute resolution mechanisms. This legal structure is designed to balance the need for financial inclusion, particularly for MSMEs who are not yet fully integrated into the formal financial system, with the operational and financial security of banks. Legal protection efforts, such as contract enforcement and consumer protection laws, ensure that both parties are treated fairly and that any breach of agreement can be addressed through appropriate legal channels (OJK, 2021). By addressing these legal elements, the article will contribute to a better understanding of how credit agreements like KUPEDDES function within Indonesia's broader legal and financial systems, promoting both financial growth and legal certainty for all stakeholders involved.

2. RESEARCH METHODS

This research employs a normative legal methodology, concentrating on written legal norms as the primary framework for analyzing bank credit agreements with individual clients, specifically in the context of Rural General Credit (KUPEDES). The study utilizes a statutory approach to explore the regulations that underpin the implementation of KUPEDES credit agreements, alongside a case law approach to review relevant judicial decisions related to banking disputes. Secondary data is gathered from primary legal sources, including Law Number 10 of 1998 regarding Banking and the Financial Services Authority (OJK) Regulation on Credit. Additionally, secondary sources such as legal literature discussing theories and concepts of credit agreement law, as well as tertiary resources like legal dictionaries and encyclopedias, are also incorporated. Data collection involves literature reviews of legal documents and pertinent scholarly works. The gathered data will be analyzed using a descriptive-qualitative approach aimed at detailing and interpreting the legal provisions pertinent to KUPEDES credit agreements and elucidating the rights and obligations of the involved parties. Furthermore, the study will assess the degree of legal protection available to both customers and banks during the credit approval process as stipulated by existing regulations.

3. RESULTS AND DISCUSSION

This article examines the agreement for providing bank loans (credit) to individual customers in the form of Rural General Credit (KUPEDES). This analysis aims to provide a comprehensive understanding of the legal aspects governing the agreement and the rights and obligations of each party. The KUPEDES agreement is grounded in the banking regulations applicable in Indonesia, particularly Law Number 10 of 1998 concerning Banking, which outlines the legal framework for banking operations (Sukirno, 2020). This legislation provides the foundation for banking institutions to function and governs various elements of credit provision, including KUPEDES. For a credit agreement to be valid, it must comply with the conditions specified in Article 1320 of the Civil Code (KUHPperdata) (Soekanto, 2018). This article indicates that an agreement is deemed valid if it satisfies four criteria: a clear mutual understanding among the parties involved, legal capacity, a lawful object, and a legitimate cause. The agreement encompasses a mutual comprehension between the bank and the customer regarding loan amount, interest rate, duration, and other pertinent conditions. Any ambiguity within this agreement can lead to future disputes, making it crucial for both parties to maintain open communication and document all agreements in writing.

Legal capacity pertains to the ability of the parties engaged in the agreement to undertake legal actions. Consequently, both the bank and the customer must possess the legal capacity to enter into the contract; for instance, if the customer is a minor or declared bankrupt, the validity of the agreement may be challenged. Generally, the object of the KUPEDES agreement is the money being lent. However,

it is essential to confirm that this object is not associated with illegal items; loans intended for unlawful purposes or that contravene legal regulations will not hold validity. The credit agreement must adhere to legal standards and should not conflict with public order or morality, signifying that borrowed funds should be utilized for productive endeavors, such as developing micro or small businesses, rather than harmful activities.

Meeting these requirements is vital to prevent potential disputes in the future. Noncompliance with any of these stipulations could lead to the agreement's cancellation or its classification as invalid. Such outcomes can have significant consequences for both the bank and the customer. If an agreement is invalidated, the bank risks losing its right to recover debts, while the customer might forfeit access to the funds already received. Furthermore, misunderstandings surrounding the terms of the agreement can lead to disputes, resulting in wasted time and financial loss for both parties. Hence, it is essential for financial institutions to educate customers about the legal dimensions of credit agreements, including the associated rights and responsibilities. This can be accomplished through workshops, seminars, or by providing clear, comprehensible information within the agreement documentation. The legal dimensions of the KUPEDDES agreement serve as a crucial foundation for ensuring fairness and legal certainty for all parties involved. By guaranteeing that all legal stipulations are fulfilled, a harmonious relationship between the bank and its customers can be fostered, ultimately promoting economic growth, particularly in the micro and small business sectors. In the KUPEDDES agreement, the bank, acting as the lender, has the right to recover the loan along with the agreed-upon interest (Sari, 2021). Meanwhile, customers are entitled to receive clear information about the credit's terms and conditions, and they are required to pay their installments according to the established schedule (Putri, 2020). This clarity is crucial for fostering trust between banks and customers; a lack of transparency from the bank can lead to dissatisfaction and potential disputes down the line.

Legal protections within the KUPEDDES agreement include a dispute resolution mechanism governed by the Financial Services Authority (OJK) (OJK, 2021). This framework ensures legal certainty for both parties, outlining steps to resolve issues fairly in the event of a default. A well-defined dispute resolution process can also encourage customers to feel more confident in taking out loans, as they perceive a safeguard in place. The KUPEDDES program significantly enhances access to capital for micro, small, and medium enterprises (MSMEs) and contributes to poverty alleviation in rural areas (Mulyono, 2019). By facilitating access to credit, KUPEDDES allows customers to grow their businesses, which can ultimately enhance the welfare of the community (Rahman, 2020). Additionally, the program fosters entrepreneurship in rural areas, which are often overlooked by formal financial

institutions. Consequently, KUPEDDES serves as a crucial catalyst for local economic growth and equitable development.

The participation of banks in extending loans through KUPEDDES can improve the financial stability of rural communities, which typically receive less attention from conventional financial entities. Furthermore, this initiative enables banks to broaden their market reach and foster stronger connections with customers in these areas. This arrangement not only benefits the banks in terms of profitability but also aligns with their social objectives of advancing financial inclusion. Despite the advantages that KUPEDDES offers, challenges persist, particularly in ensuring that customers fully grasp the credit terms and associated risks. It is essential for banks to provide thorough education to their customers, enabling them to make informed decisions. Implementing training and counseling programs can effectively address this need, empowering customers not only as borrowers but also as individuals equipped to manage their finances wisely.

4. CONCLUSION

This article highlights the important role of the financial system, especially the People's Business Credit (KUPEDDES) program, in supporting economic development, especially for Micro, Small, and Medium Enterprises (MSMEs) in Indonesia. KUPEDDES is designed to improve access to capital for rural communities who often have difficulty meeting formal credit requirements. By providing better financial access, this program contributes to poverty alleviation and encourages local economic growth. Through a clear legal framework, KUPEDDES ensures that the rights and obligations of both banks as credit providers and customers as credit recipients are protected. The dispute resolution mechanism regulated by the OJK provides legal certainty, thereby increasing customer confidence in taking out credit. However, challenges remain, especially in ensuring customer understanding of credit terms and risks.

It is important for financial institutions to provide adequate education to customers regarding the legal dimensions of credit agreements. The implementation of training and counseling programs can be an effective solution to help customers not only as credit recipients, but also as individuals who are able to manage their finances wisely. Overall, KUPEDDES is not only a tool to increase access to capital, but also serves as a driver of financial inclusion, strengthening the rural economy, and supporting sustainable growth in Indonesia. Thus, an in-depth analysis of the legal aspects of the KUPEDDES agreement is essential to ensure compliance and sustainability of rural economic development through financial inclusion.

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